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SPECIAL REPORT

EGYPT TRIES ECONOMIC REFORM

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EGYPT TRIES ECONOMIC REFORM

The four-month-old cabinet of Prime Minister Zakaria Muhieddin has made a promising start on reforming the Egyptian economy. The policies so far enunciated suggest that the ideological considerations of President Nasir's "Arab Socialism"--which hamstrung the economy in the past--are to give ground to a pragmatic approach. The makeup of the new cabinet reflects the emphasis being placed on obtaining the managerial skill and efficiency Egypt has sorely needed. Muhieddin, an associate of Nasir's since before the 1952 revolution, has the President's confidence and enjoys widespread respect for his administrative abilities.

Muhieddin has already taken steps to fight inflation and the foreign exchange shortage. Some of the prestigious but unrealistic industrial projects of an overly ambitious regime are being cut back, and new emphasis is being given to the critical agricultural problems. The heretofore paternalistic coddling of an apathetic laboring class is being reassessed, and new efforts at population control are being pushed. A reorganization of the government's economic ministries is under way, and exploratory steps toward a freer economy have been taken.

Other reform programs have been promised in the past, but never really implemented. Such could be the case again if the regime loses its will to go through with the necessary tough measures or is distracted by a crisis in some other area, such as Yemen. Thus far, however, the signs point to a genuine determination to proceed.

A Clean Sweep

Nasir's appointment of Muhieddin on 1 October 1965 was apparently the culmination of a long review of Egypt's faltering foreign and domestic policies. Nasir had already made an effort to get out from under the burden of preserving the republican government in Yemen by signing a truce agreement with Saudi King Faysal in August. Relations with the West and Egypt's sister Arab states were in various stages of improvement or readjustment. The regime was worried by a series of antigovernment disturbances and plots, and Egypt's one-party Arab Socialist Union--Nasir's hope for organized, grass-roots politics--was moribund.

Most pressing, however, was the floundering Egyptian economy, and its rescue has been largely entrusted to Muhieddin. The prime minister, who has long been associated with internal security affairs, also assumed the post of interior minister. Foreign affairs remain the prerogative of Nasir, himself, and Muhieddin can be expected to spend by far the largest part of his time on reform and administration of the economy. In this he has Nasir's unqualified and openly expressed support.

Muhieddin is from a decidedly different cut of cloth than his predecessor, Ali Sabry. The abrasive former prime minister was an advocate of close relations with the Communist states and a champion of grandiose development schemes. He now has been given the job of trying to breathe life into the Arab Socialist Union (ASU). Muhieddin, in contrast, is considered friendly toward the West and, shortly after taking office, insisted on removing his leftist cousin, Khalid Muhieddin, from influential positions in the ASU and the Egyptian press.

Economic experts, both Egyptian and Western, are generally enthusiastic about Muhieddin's appointment and the program he has so far outlined. That program can be divided into three areas: (1) Measures designed to remedy immediate problems, mainly overconsumption and foreign-exchange difficulties; (2) changes in overall planning primarily intended to cut back uneconomic development projects; and (3) new policies for attacking the controversial problems of overpopulation, unproductive labor, and inefficiency in state enterprises. The first two areas are essential to Egypt's economic well-being, but it is the third which will have the greatest political impact and for which have been found the fewest avenues of positive action.

Overconsumption

Nasir decided several years ago that Egypt's future depended on rapid industrialization, but he publicly vowed that he would not sacrifice the welfare of the Egyptian people to pay for new plants and machines. Jobs were created, wages raised, and bonuses declared. Ambitious education, health, and insurance programs were undertaken. The prices of consumer goods were subsidized so that the people could enjoy the fruits of the revolution. The result was an increase in consumption greater than productivity, too little saving, and inflation.

Muhieddin's first blow against overconsumption was a broad range of price increases. Some, such as those on sugar, cloth, butane, bread, and tea, fall on the whole public. The 25-percent price increases on consumer durables and the steep hike in car prices reflect a strong attack on luxury goods--largely imported and therefore a foreign exchange drain--but they cannot, as Muhieddin bravely admitted, produce nearly the same economic results as the small boosts in prices of essential goods.

A number of tax increases were also introduced to cut consumer spending power further. The income tax was increased, as was the defense tax on wages and salaries, movable property, and commercial and industrial profits. Some taxes, such as those on soft drinks, alcoholic beverages--raised to 500 percent of value--and cigarettes are in effect price increases.

Foreign Exchange

Nasir's policies, notably extensive arms purchases and overemphasis on industrialization, have produced several side effects that have aggravated Egypt's persistent foreign-exchange problem. He contracted large foreign debts that have to be repaid. The new industries often cannot be supported by domestic resources, thus requiring imported parts and raw materials. Pushing industrialization at the expense of agriculture also helped make Egypt a heavy importer of food. In addition, some of the increased consumer appetite applied to imported goods, a further drain on exchange.

Some of the new taxes fall on imports and help cut foreign exchange losses. As Muhieddin has repeatedly stated, however, the solution of the foreign-exchange problem depends on encouraging industries that can produce currently imported goods and on increasing exports, both agricultural and manufactured. One of the important government criteria for evaluating any Egyptian enterprise now is its volume of exports. Egyptian firms will also be pressed to barter exports for essential imports.

Cutback in Uneconomic Projects

Many of Egypt's new industries have proved largely uneconomic. They could not be supported by domestic natural resources, technical know-how, or trained manpower, and there was too often no market for their products. The prestige which was thought to accrue from the possession of steel mills and automobile factories, however, outweighed sound economic reasoning.

The new prime minister--with Nasir's backing--has made clear that prestige will no longer have the final vote in economic planning. In a frank assessment of the 1960-65 economic plan before the National Assembly, Muhieddin characterized the recent period as one of "lack of coordination" and "incomplete planning." Information is still being gathered for future planning, but, in broad outline, Muhieddin called for consolidation, elimination of bottlenecks, and increases in productivity, not new starts on new projects.

Several projects have already been slowed down or scuttled. The Helwan steel mill, originally scheduled to produce

1.5 million tons of steel by 1970, is now targeted for full output in 1975. A Polish aluminum factory, a Rumanian cement and phosphate project, and a Czech sugar mill have been canceled. Also dropped are plans for Soviet-built factories for agricultural and road-building equipment, electrical instruments, and transmission towers.

An emphasis on agriculture is notable in the new planning, to enable Egypt to produce more food for both domestic consumption and export. About $1.5 billion has been allocated for agricultural projects under the next plan, more than double the amount allotted in the first plan.

Too Many Egyptians

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25X1 [redacted] The public stance of the regime, however, has generally been to count the 30 million Egyptians as the strength of the revolutionary nation.

Muhieddin is now taking the lead in openly declaring Egypt's population growth "a vital problem calling for an urgent remedy." He has warned that Egypt's resources can never support the product of "this grave population explosion." The agricultural sector, which Muhieddin points out was to finance much of Egypt's development, must now concentrate on feeding Egyptians. He stated that "average arable land per capita was one third of a feddan (1.038 acres) in 1952, one fourth in 1960, one fifth in 1965, and will be less than one fifth in 1975, even after completion of the High Dam."

With the problem officially recognized, numerous conferences on population control have been held, committees organized, and plans laid. The prime minister declared that a nationwide family planning project, with councils in every governorate, backed by national television and radio, would begin on 1 February. Unfortunately, however, nothing resembling a practical, effective attack on Egypt's birth rate has yet gotten under way.

For one thing, Egypt's supply of contraceptive pills, intrauterine devices, and trained personnel to dispense them is woefully inadequate. That problem is minor, however, compared to the attitude of the people. The Egyptian peasants, because they constitute the majority of the population and engender the most children, must be the principal target of any family planning program. The peasants, however, have traditionally regarded a large family as an economic asset and tend to look upon birth control with suspicion.

Despite the fact that the government now is in a position to receive aid on birth control from other governments and private agencies such as the Ford

Foundation, these attitudes indicate that any meaningful progress will be very slow in coming.

Too Many Workers

So far Egypt has been able to provide food, clothing, and shelter for most of its millions, and has initiated ambitious health and welfare programs, although these are undergoing reappraisal which probably will lead to a severe reduction. It has not, however, been able to provide jobs for all of the Egyptians who have joined the labor force since the 1952 revolution.

This is not to say that Egypt has a severe unemployment problem. Until now, Nasir insisted that employment precedes efficient production as a goal of his Socialist Revolution. Both government and state-owned industries have hired workers for whom there was no work, increased wages and benefits, and declared bonuses with no increase in productivity. The result has been, inevitably, gross overemployment, a decrease in productivity, and an irresponsible "who cares" attitude that threatens to stifle all of Egypt's efforts to develop and grow economically.

Muhieddin has warned that each worker must do his share of the work, and he has even advanced the revolutionary idea that if a man does not complete his assigned tasks during work hours, he must remain on his own time until he does. The prime minister has also suggested that the trend toward the socialistic goal of equality in wages must be reversed "because efficiency of production can be realized only through rewarding industrious working people."

The regime has not yet instituted new work rules that implement the new policies, however. It has, in fact, a tiger by the tail. Egyptian labor, unlike consumers or potential parents, has some organization and has been known to express its displeasure violently. Thus, while only mass layoffs can bring sanity to the Helwan auto works, for example, where 6,000 workers produce virtually nothing, such a move is political dynamite. The regime's continued hesitation to crack the whip over indifferent Egyptian laborers is nowhere better revealed than on the docks of Alexandria, where for months inefficiency has forced ships to wait a week or more to be unloaded.

Muhieddin plans to reduce government expenditures--as part of the national belt-tightening--by cutting back on official automobiles, telephones, and so forth. No solution to the problem of gross overemployment in the inefficient government bureaucracy has been devised, however, and the regime may in fact find itself forced, for political reasons, to continue the policy of hiring all college graduates who cannot find other work, however superfluous they may be.

State Enterprise at Bay

Nasir's past programs to Egyptianize and then nationalize the economy, leading to state ownership or control of all but an insignificant portion of business and industry, were undertaken in spite of Egypt's lack of sufficient managerial talent. The result has been inefficiency and mismanagement in nearly every sector.

Muhieddin has begun a reorganization of government ministries to eliminate the confusion and delays that originate at the top. Proposed new work rules, incentive plans, and hiring practices, if they are instituted, would go far to curb the inefficiency attributable to the bottom. In between, however, on the working management levels, are problems that cannot be eliminated by reorganization or new rules. These are inexperience, the loss of the profit motive for hard work and assumption of risk, and the tendency of managers of state enterprise to avoid risk, shift blame, and hide behind rules and regulations.

Only the most honest self-appraisal could have brought the Egyptian Government to the conclusion it has now reached--that Egypt's Revolutionary Socialism, however brave and ambitious, has not efficiently managed many of Egypt's enterprises. A few tentative, exploratory steps toward a freer economic system have been taken. State enterprises will be judged by profitability from now on, claims Muhieddin, and competition among them will be stimulated. A US firm has been asked to take over management of the chaotic Helwan steel complex. The government is listening to plans for foreign investments in industry, paying closest attention to those planning export of items made with Egyptian raw materials.

No sensational about-face can be expected, however. A free zone for Port Said, supposedly to operate free of Egyptian employment and wage laws, and exchange and other controls, was declared in December. But a Port Said citizens' committee, formed to suggest ways of running a free zone, went far beyond its mandate, blamed socialism for Egypt's economic problems, and agreed that only a completely free city--virtually a return to Western capitalism--would end Port Said's economic stagnation. Nasir, not ready by far to countenance any such condemnation of Egyptian socialism, sequestered the property of Port Said's leading proponent of the free city, throwing the question of a relaxation of Egypt's business laws into doubt.

Political Response

Thus far the political responses to the new economic policies of Prime Minister Muhieddin have about evened out. The general public's reaction to those parts of the new program that immediately affect the masses, such as price increases, has been vocally negative. However, members of the intelligentsia, who in recent years asked if Nasir had not gone too far with his socialization of Egypt's economy, have acclaimed the new measures.

The regime's will to impose stringent rules, and its ability to do this without creating an explosive situation, have not yet been tested. It has not laid off large numbers of workers, and Muhieddin has not had to refuse demands for wage increases. On the other hand, however, Muhieddin, in his capacity as interior minister, has ordered well-publicized trials of several groups of antiregime elements. The message thus conveyed--that the regime will tolerate no organized antigovernment activity--has no doubt made an impression on the public.

The ASU, counted on by the regime to explain the purpose of the new policies to the masses and secure their support, is once again proving a frail vessel for Nasir's hopes for popular involvement. Speeches, rallies, and the proliferation of ASU organizations --a new Secretariat for Farmers Affairs has been created to complement the renewed accent on agriculture--fail to overcome the ASU's fundamental liability, a lack of real responsibility or power.

Prospects

Western economic experts, sufficiently impressed with the new attitude of realism and practicality in Muhieddin's program, have offered their help. The International Monetary Fund is expected to increase Egypt's drawing, and the International Bank for Reconstruction and Development is considering support of basic projects, such as roads, bridges, and irrigation, in Egypt's next development plan. Recently the Kuwaiti Fund for Arab Economic Development contributed over $40 million toward an Egyptian fertilizer plant, and suggested that other "sensible" plans would receive serious consideration.

Most of Egypt's multiple economic problems cannot be solved overnight, however, and in some cases nothing short of a counterrevolution in Egypt's economic orientation would suffice. Even the most favorable progress could be partially canceled out by failure to reach a settlement in the costly Yemeni civil war, or by a return to strained relations with the West that would cut off vital economic aid. Nonetheless, the new policies seem to indicate a promising awareness of the problems involved and a determination to approach their solution in a realistic fashion./ 25X1

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